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cc Mr Wilson
Mr Ryder

SECRET

Prime Minister

To note.



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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

I have now had an opportunity to consider the immediate monetary prospect with the Governor and Treasury officials.

faster than the Treasury said earlier.

i.e. the 6 months to May

2. The money supply figures, to be published next Thursday, show that the growth of $\pounds M3$ in the last six months was at an annual rate of 12.8 per cent - slightly over the top of the target range. The market is now anticipating such an outcome, after the publication of the eligible liability figures. There are some indications that the rate of growth may now be slightly lower, but the underlying rate must still be close to the top of the range. Moreover, we cannot yet be certain that the growth of bank lending to the private sector will continue to fall back from the exceptional levels it reached in the first few months of this year.

i.e. to keep lending to the private sector from growing too fast

3. I do not think that this calls for immediate action to tighten monetary policy ahead of the Budget. But it does mean that we must err on the side of caution. The Governor and I have agreed that we should keep MLR at 12 per cent, and that the Bank should resist any significant downward move in short term interest rates, should the market point that way. We also propose to bring in a new long tap stock, to continue the funding of the PSBR, as soon as market conditions permit, possibly this Friday.

4. I am sending a copy of this minute to the Governor.

(G.H.)

10 May, 1979



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